

**CITY OF NORA SPRINGS**

**Nora Springs, Iowa**

**INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**June 30, 2004**

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## CITY OF NORA SPRINGS

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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#### (Before January 2004)

Roger Schumaker .....	Mayor .....	January 2004
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Alan Brallier .....	Council Member .....	January 2004
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William Draheim .....	Council Member .....	January 2004
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Candace Smith .....	Council Member .....	January 2004
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Larry Cross .....	Council Member .....	January 2006
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Gordon Brierly .....	Council Member .....	January 2006
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Deborah Gaul .....	City Administrator .....	Indefinite
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Ralph Smith .....	City Attorney .....	Indefinite
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#### (After January 2004)

George Anderson .....	Mayor .....	January 2006
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Alan Brallier .....	Council Member .....	January 2008
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Steve Blickenderfer .....	Council Member .....	January 2008
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Candace Smith .....	Council Member .....	January 2008
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Larry Cross .....	Council Member .....	January 2006
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Gordon Brierly .....	Council Member .....	January 2006
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Deborah Gaul .....	City Administrator .....	Indefinite
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Ralph Smith .....	City Attorney .....	Indefinite
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## **Independent Auditors' Report**

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To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Nora Springs, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Nora Springs' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Nora Springs as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 13 during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's*

*Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No.41, Budgetary Comparison Schedule – Perspective Differences.*

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 8, 2004 on our consideration of the City of Nora Springs' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 29 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Nora Springs' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

September 8, 2004

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Nora Springs provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### **2004 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities decreased by 2.7%, or approximately \$20,152 from fiscal year 2003 to fiscal 2004. Property tax decreased approximately \$19,827.
- Disbursements increased 22.5% or approximately \$365,512, in fiscal 2004 from fiscal 2003. Public safety, culture and recreation, and community and economic development disbursements increased approximately \$10,925, \$27,305, and \$50,780, respectively. Public works, general government, debt service, and capital projects disbursement decreased approximately \$1,649, \$12,221, \$222,877, and \$485,666, respectively.
- The City's total cash basis net assets decreased 14.6%, or approximately \$124,693, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$191,072 and the assets of the business type activities increased by approximately \$66,379.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial Statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option, and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental

fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

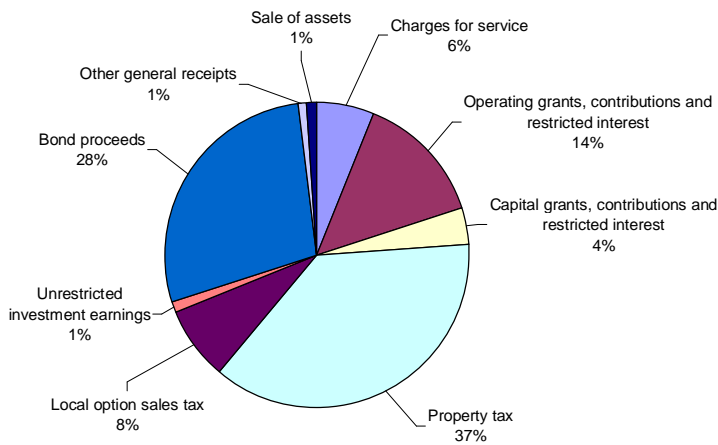
## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$653,910 to \$462,838. The analysis that follows focuses on the changes in cash balances for governmental activities.

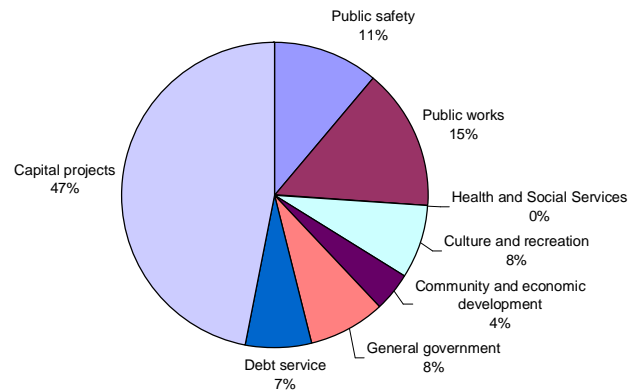
Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	Year ended June 30, 2004
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 73
Operating grants, contributions and restricted interest	167
Capital grants, contributions and restricted interest	46
General receipts:	
Property tax	444
Local option sales tax	94
Unrestricted investment earnings	5
Bond proceeds	343
Other general receipts	13
Sale of Assets	15
Transfers, net	0
Total receipts and transfers	<u>1,200</u>
Disbursements:	
Public safety	153
Public works	203
Culture and recreation	115
Community and economic development	63
General government	108
Debt Service	97
Capital projects	<u>652</u>
Total disbursements	<u>1,391</u>
Increase in cash basis net assets	(191)
Cash basis net assets beginning of year	<u>654</u>
Cash basis net assets end of year	<u>\$ 463</u>



### Receipts by Source



### Disbursements by Function



The City's total receipts for governmental activities decreased by 11%, or \$142,351. The total cost of all programs and services increased by approximately \$337,885, or 32%, with no new programs added this year. The decrease in receipts is due primarily to decreased proceeds from borrowing.

The City increased property tax rates for 2004 by an average of 16 percent. This increase raised the City's property tax receipts by approximately \$44,604 in 2004.

The cost of all governmental activities this year was \$1.391 million compared to \$1.053 million last year. However, as shown in the Statement of Activities and Net Assets on pages 12-13, the amount taxpayers ultimately financed for these activities was only \$1.104 million because some of the cost was paid by those directly benefited from the programs (\$73,362) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$213,093). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2004 from approximately \$297,781 to approximately \$286,455, principally due to receiving less donations in 2004. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,104,568 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year Ended June 30, 2004
Receipts	
Program Receipts	
Charges for Service	
Water	\$ 134
Sewer	145
General Receipts	
Other General Receipts	18
Total Receipts	<u>297</u>
Disbursements and Transfers	
Water	115
Sewer	115
Total Disbursements and Transfers	<u>230</u>
Increase in Cash Balance	67
Cash Basis Net Assets – Beginning of Year	<u>197</u>
Cash Basis Net Assets – End of Year	<u>\$ 264</u>

Total business type activities receipts for the fiscal year were \$297,000 compared to \$255,000 last year. This significant increase was due primarily to increased charges for service for water and sewer. Total disbursements and transfers for the fiscal year increased by 14% to a total of \$230,688.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Nora Springs completed the year, its governmental funds reported a combined fund balance of \$462,838 a decrease of \$191,072 from last year's total of \$653,903. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$89,989 from the prior year to a deficit of \$140,500. Approximately \$35,000 of this decrease was due to a general decline in all sources of revenue other than property tax. Expenses in excess of revenue also contributed to the decline in cash balance.
- The Road Use Tax Fund cash balance increased by \$5,726 to \$54,124 during the fiscal year. This increase was attributed to increased road use tax collections.
- The Tax Increment Financing Fund was established to account for a major urban renewal project within the City's business district. At the end of the fiscal year, the cash balance was \$143,662, an increase of \$45,662 from the previous year. The increase was the result of increased tax collections and less transfers to establish sinking funds and reserves as required by note resolutions. These proceeds will be used for various

construction and refurbishing projects within the urban renewal district. The bonds and interest will be redeemed with incremental property tax generated from the increased taxable valuation in the district.

- The Debt Service Fund cash balance decreased by \$271 to \$56,821 during the fiscal year. This decrease was due to an increase in debt payment. Bond principal and interest payments increased by approximately \$11,000 in fiscal 2004.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$33,508 to \$29,384, due primarily to an increase in the sale of water over the prior year.
- The Sewer Fund cash balance decreased by \$18,885 to \$112,190, due primarily to the Sewer Revenue Sinking and Reserve Funds.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on March 9, 2004 and resulted in an increase in operating disbursements. The second amendment was approved on May 25, 2004 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

## DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$1,285,000 in notes and other long-term debt, compared to approximately \$1,370,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2004	2003
General Obligation Bonds	\$ 585	\$ 650
Revenue Notes	700	370
Anticipatory Warrants	0	350
Total	\$1,285	\$1,370

Debt decreased as a result of continuing payments. The City refunded anticipatory warrants during the year with no change in balances.

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$592,000 is significantly below its constitutional debt limit of \$1.296 million.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Nora Springs City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

These factors were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are 1.1 million, a decrease of 37% over the final 2004 budget. Property taxes received to the Tax Increment Finance District will be expended in fiscal year's 2005 and 2006 for the financing of the Chlorination/Dechlorination Wastewater System Improvement Project. Budget expenditures are expected to decrease by approximately \$646,547. Increased wages, increases in street construction, and maintenance and repairs for wastewater treatment facility represent the largest increases. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$349,876 by the close of 2005.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customer, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deborah Gaul, City Manager, 45 North Hawkeye Ave, Nora Springs, Iowa.

## **Basic Financial Statements**

**CITY OF NORA SPRINGS**  
**Nora Springs, Iowa**

**STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS**

As of and for the Year Ended June 30, 2004

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
<b>Functions/Programs:</b>				
Governmental Activities:				
Public Safety	\$153,248	\$1,105	\$275	\$ 0
Public Works	203,316	42,362	134,405	0
Culture & Recreation	114,966	14,733	19,508	0
Community & Economic Development	62,641	7,007	12,899	45,791
General Government	107,565	4,408	215	0
Debt Service	96,705	0	0	0
Capital Projects	652,582	3,747	0	0
Total Governmental Activities	1,391,023	73,362	167,302	45,791
Business Type Activities:				
Water	114,643	148,151	0	0
Sewer Rental	69,071	147,777	0	0
Sewer Revenue Note Sinking	46,697	0	0	0
Meter Deposits	277	900	0	0
Total Business Type Activities	230,688	296,828	0	0
Total	\$1,621,711	\$370,190	\$167,302	\$45,791

**General Receipts:**

Property Tax Levied For:  
    General Purposes  
    Tax Increment Financing  
    Debt Service  
Local Option Sales Tax  
Unrestricted Interest on Investments  
Bond Proceeds  
Miscellaneous  
Sale of Assets

Total General Receipts

Change in Cash Basis Net Assets

Cash Basis Net Assets – Beginning of Year

Cash Basis Net Assets – End of Year

**Cash Basis Net Assets**

Restricted:  
    Streets  
    Urban Renewal Purposes  
    Debt Service  
Unrestricted  
Total Cash Basis Net Assets

See Notes to Financial Statements.

**Exhibit A**

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$(151,868)	\$ 0	\$(151,868)
(26,549)	0	(26,549)
(80,725)	0	(80,725)
3,056	0	3,056
(102,942)	0	(102,942)
(96,705)	0	(96,705)
(648,835)	0	(648,835)
(1,104,568)	0	(1,104,568)
0	33,508	33,508
0	78,706	78,706
0	(46,697)	(46,697)
0	623	623
0	66,140	66,140
(1,104,568)	66,140	(1,038,428)
255,531	0	255,531
159,748	0	159,748
29,109	0	29,109
93,599	0	93,599
4,542	239	4,781
342,812	0	342,812
13,481	0	13,481
14,674	0	14,674
913,496	239	913,735
(191,072)	66,379	(124,693)
653,910	197,376	851,286
\$462,838	\$263,755	\$726,593
\$54,124	\$ 0	\$54,124
143,662	0	143,662
56,821	116,167	172,988
348,731	0	348,731
(140,500)	147,588	7,088
\$462,838	\$263,755	\$726,593

**CITY OF NORA SPRINGS**  
**Nora Springs, Iowa**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES IN FUND  
BALANCES – GOVERNMENTAL FUNDS**  
As of and for the Year Ended June 30, 2004

	General	Special Revenue		
		Road Use Tax	Local Option Sales Tax	Tax Increment Financing
<b>Receipts:</b>				
Property Tax	\$181,833	\$ 0	\$ 0	\$ 0
Tax Increment Financing Collections	0	0	0	159,748
Other City Tax	2,237	0	93,599	0
Licenses & Permits	3,278	0	0	0
Use of Money & Property	3,266	0	0	0
Intergovernmental	25,640	134,405	0	0
Charges for Service	40,628	0	0	0
Special Assessments	2,683	0	0	0
Miscellaneous	23,153	1,662	0	6,207
Total Receipts	282,718	136,067	93,599	165,955
<b>Disbursements:</b>				
Operating				
Public Safety	127,359	0	0	0
Public Works	52,151	130,341	0	0
Culture & Recreation	96,598	0	0	0
Community & Economic Development	711	0	0	32,843
General Government	96,050	0	0	1,539
Debt Service	0	0	0	0
Capital Projects	0	0	0	0
Total Disbursements	372,869	130,341	0	34,382
Excess of Receipts Over Disbursements	(90,151)	5,726	93,599	131,573
Other Financing Sources (Uses):				
Bond Proceeds	0	0	0	0
Sale of Capital Assets	162	0	0	0
Operating Transfers In	0	0	0	0
Operating Transfers Out	0	0	(5,560)	(85,911)
	162	0	(5,560)	(85,911)
Net Changes in Cash Balances	(89,989)	5,726	88,039	45,662
Cash Balances – Beginning of Year	(50,511)	48,398	9,022	98,000
Cash Balances – End of Year	\$(140,500)	\$54,124	\$97,061	\$143,662
Reserved :				
Debt Service	\$ 0	\$ 0	\$ 0	\$ 0
Unreserved:				
General Fund	(140,500)	0	0	0
Special Revenue Funds	0	54,124	97,061	143,662
Capital Projects Funds	0	0	0	0
Total Cash Basis Fund Balances	\$(140,500)	\$54,124	\$97,061	\$143,662

See Notes to Financial Statements.



**Exhibit B**

Capital Projects Sewer EQ Basin	Debt Service	Other Nonmajor Governmental Funds	Total
\$ 0	\$28,886	\$70,788	\$281,507
0	0	0	159,748
0	223	674	96,733
0	0	0	3,278
2,602	0	1,276	7,144
0	0	43,791	203,836
0	0	0	40,628
0	0	0	2,683
1,146	0	14,740	46,908
3,748	29,109	131,269	842,465
0	0	25,889	153,248
0	0	20,824	203,316
0	0	18,368	114,966
0	0	29,087	62,641
0	0	9,976	107,565
0	96,705	0	96,705
652,582	0	0	652,582
652,582	96,705	104,144	1,391,023
(648,834)	(67,596)	27,125	(548,558)
342,812	0	0	342,812
0	0	14,512	14,674
0	67,325	24,146	91,471
0	0	0	(91,471)
342,812	67,325	38,658	357,486
(306,022)	(271)	65,783	(191,072)
346,500	57,092	145,409	653,910
\$40,478	\$56,821	\$211,192	\$462,838
\$ 0	\$56,821	\$ 0	\$56,821
0	0	0	(140,500)
0	0	199,534	494,381
40,478	0	11,658	52,136
\$40,478	\$56,821	\$211,192	\$462,838

**CITY OF NORA SPRINGS**  
**Nora Springs**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES IN FUND  
BALANCES – ENTERPRISE FUNDS**  
As of and for the Year Ended June 30, 2004

	Water	Sewer Rental	Sewer Revenue Note Sinking
Operating Receipts:			
Charges for Service	\$130,034	\$145,266	\$ 0
Miscellaneous	14,117	2,511	0
Total Operating Receipts	148,151	147,777	0
Operating Disbursements:			
Business Type Activities	114,643	69,071	0
Total Operating Disbursements	114,643	69,071	0
Excess of Operating Receipts Over Operating Disbursements	33,508	78,706	0
Non-Operating Receipts (Disbursements):			
Interest on Investments	0	0	0
Debt Service	0	0	(46,697)
	0	0	(46,697)
Excess (Deficiency) of Receipts Over (Under) Disbursements	33,508	78,706	(46,697)
Operating Transfers In (Out)	0	(97,591)	67,122
Net Change in Cash Balances	33,508	(18,885)	20,425
Cash Balances – Beginning of Year	(4,124)	131,075	0
Cash Balances – End of Year	\$29,384	\$112,190	\$20,425
<b>Cash Basis Fund Balances</b>			
Reserved for Debt Service	\$ 0	\$ 0	\$20,425
Unreserved	29,384	112,190	0
Total Cash Basis Fund Balances	\$29,384	\$112,190	\$20,425

See Notes to Financial Statements.

**Exhibit C**

Sewer Revenue Reserve	Sewer Revenue Improvement	Meter Deposits	Total
\$ 0	\$ 0	\$ 0	\$279,300
0	0	900	17,528
0	0	900	296,828
0	0	277	183,991
0	0	277	183,991
0	0	623	112,837
239	0	0	239
0	0	0	(46,697)
239	0	0	(46,458)
239	0	623	66,379
30,469	0	0	0
30,708	0	623	66,379
40,034	25,000	5,391	197,376
\$70,742	\$25,000	\$6,014	\$263,755
\$70,742	\$25,000	\$ 0	\$116,167
0	0	6,014	147,588
\$70,742	\$25,000	\$6,014	\$263,755

## **City of Nora Springs**

### **Notes to Financial Statements**

**June 30, 2004**

#### **(1) Summary of Significant Accounting Policies**

The City of Nora Springs is a political subdivision of the State of Iowa located in Floyd County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

##### **A. Reporting Entity**

For financial reporting purposes, the City of Nora Springs has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Nora Springs has no component units which meet the Governmental Accounting Standards Board criteria.

##### **Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City, but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: North Iowa Area Council of Governments, the Landfill of North Iowa, and the IMWCA Loss Control Board (Iowa Municipalities Workers' Compensation Association).

## Notes to Financial Statements – Continued

### (1) Summary of Significant Accounting Policies (Continued)

#### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net Assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers of applicants who purchase, use of directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

## **Notes to Financial Statements – Continued**

### **(1) Summary of Significant Accounting Policies (Continued)**

#### **B. Basis of Presentation (Continued)**

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From this fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for Local Option Sales Tax proceeds and transfers to the Capital Projects Fund.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Capital Projects Fund is used to account for the acquisition and construction of the City's capital improvements.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operations and maintenance of the City's wastewater treatment and sanitary sewer system.

## **Notes to Financial Statements – Continued**

### **(1) Summary of Significant Accounting Policies (Continued)**

#### **C. Measurement Focus and Basis of Accounting**

The City of Nora Springs maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### **D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government and capital projects functions.

### **(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. The City's investments are all Category 1, which means that the investments or insured or registered or the securities are held by the City or its agent in the City's name.

## Notes to Financial Statements – Continued

### (2) Cash and Pooled Investments

In addition, the City has investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$98,115 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

### (3) Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Sewer Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$65,000	\$28,343	\$35,000	\$33,703	\$100,000	\$62,046
2006	65,000	25,488	35,000	32,314	100,000	57,802
2007	65,000	22,433	40,000	30,721	105,000	53,154
2008	75,000	9,308	40,000	28,931	115,000	38,239
2009	75,000	15,660	40,000	27,076	115,000	42,736
2010	80,000	11,945	45,000	25,030	125,000	36,975
2011	85,000	7,893	45,000	22,799	130,000	30,692
2012	25,000	3,525	45,000	20,515	70,000	24,040
2013	25,000	2,375	50,000	18,044	75,000	20,419
2014	25,000	1,200	50,000	15,391	75,000	16,591
2015	0	0	55,000	12,585	55,000	12,585
2016	0	0	60,000	9,480	60,000	9,480
2017	0	0	50,000	6,645	50,000	6,645
2018	0	0	55,000	4,098	55,000	4,098
2019	0	0	55,000	1,375	55,000	1,375
Total	\$585,000	\$128,170	\$700,000	\$288,707	\$1,285,000	\$416,877

On December 29, 2000, the City issued \$500,000 in General Obligation Capital Loan Notes, Series 2000, and \$410,000 in Sewer Revenue Capital Loan Notes, Series 2000. Interest on the General Obligation Notes is payable on June 1 and December 1 in each year beginning on June 1, 2001. Principal payments began on December 1, 2001.

Interest on the Sewer Revenue Notes is payable semi-annually on December 1 and June 1 until maturity. Principal payments began on December 1, 2001. The Sewer Revenue Notes are not general obligations of the City, and are payable solely and only out of future net revenues of the Sewer Utility. The Notes are not payable in any manner by taxation and do not represent a liability to the City.

On December 1, 2002, the City issued \$240,000 of General Obligation Refunding Notes to provide funds to refund \$230,000 of General Obligation Municipal Building Notes, 1994. Principal and interest payments commenced on June 1, 2003 and continue semi-annually, December 1 and June 1, until fiscal year 2004.



## **Notes to Financial Statements – Continued**

### **(3) Bonds and Notes Payable (Continued)**

On April 9, 2003, the City issued \$350,000 of Sanitary Sewer Improvement Warrants for the purpose of paying costs of the wastewater treatment plant and sanitary sewer system. On January 1, 2004, the City refunded the Improvement Warrants by issuing \$350,000 of Sewer Revenue Notes. Proceeds of the Notes were \$342,812, which included a discount, management fee and accrued interest. Interest is due semiannually on June 1 and December 1, principal annually on December 1 and is payable solely and only out of future net revenue of the Sanitary Sewer System

The resolution providing for the issuance of the revenue notes includes the following provisions:

- (A) The note will only be redeemed from the future earnings of the Sewer Rental System activities and the note holders hold a lien on the future earnings of the funds.
- (B) A Reserve Fund shall be established and a balance of \$70,721 shall be maintained.
- (C) Sufficient monthly transfers shall be made to a separate sewer revenue sinking account for the purpose of making the principal and interest payments when due.
- (D) An Improvement Fund is to be established with a balance of a minimum of \$25,000 to be used solely for the payment of principal and interest when there shall be insufficient money in the sinking fund and reserve fund, or for extraordinary maintenance, repairs, renewals or replacements not included in the annual budget of revenues and current expenses.

The City is in compliance with the provisions of the Note Resolution.

### **(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

## Notes to Financial Statements – Continued

### (4) Pension and Retirement Benefits (Continued)

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$16,249, \$15,051, and \$14,134, respectively, equal to the required contribution for each year.

### (5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$4,620
Sick	8,211
	<u>\$12,831</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

### (6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Capital Project		
CDBG Fund	Special Revenue TIF	\$18,586
	Local Option Sales Tax	<u>5,560</u>
		<u>24,146</u>
Enterprise		
Sewer Rental	Enterprise Sewer Reserve	30,649
Sewer Sinking Fund	Enterprise Sewer Revenue	<u>67,122</u>
		<u>97,771</u>
Debt Service	Special Revenue TIF	<u>67,325</u>
		<u>\$189,242</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

## **Notes to Financial Statements – Continued**

### **(7) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$716 during the year ended June 30, 2004.

### **(8) Landfill of North Iowa**

The City, in conjunction with seventeen other municipalities, has created the Landfill of North Iowa. The Landfill was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Landfill will be prorated among the municipalities. The Landfill is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Landfill is not accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Nora Springs has an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2004, the City of Nora Springs paid \$2,068 for its share of the costs. Completed financial statements for the Landfill can be obtained from the Landfill of North Iowa.

### **(9) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 475 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There has been no reduction in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

## **Notes to Financial Statements – Continued**

### **(9) Risk Management (Continued)**

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contribution to the Pool for the year ended June 30, 2004 was \$23,041.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks including automobile physical damage are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2003, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution, which the withdrawing member would have made for the one-year period following withdrawal.

## **Notes to Financial Statements – Continued**

### **(9) Risk Management (Continued)**

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **(10) Deficit Fund Balance**

The General Fund has a deficit fund balance of \$140,500 at June 30, 2004.

### **(11) Contracts**

The City of Nora Springs has a contract with Waste Management for garbage removal.

The City also has various construction contracts for the Community Development Block Grant. These contracts are awarded through public hearing and a competitive bidding process on a per object basis. In addition, the City has various contracts on community improvement projects that are under \$25,000.

The City of Nora Springs has a contract for \$9,340 per month with Peoples Service Inc. for water and sewer facility operation.

### **(12) Budget Over Expenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2004, disbursements the general government and capital projects functions exceeded the amounts budgeted.

### **(13) Accounting Change and Restatements**

The Governmental Accounting Standards Board has issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures* and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information major funds rather than by fund types. Nonmajor funds are presented in total in one column.

### **Required Supplementary Information**

**CITY OF NORA SPRINGS**  
**Nora Springs, Iowa**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN BALANCES – BUDGET AND ACTUAL (CASH BASIS) –  
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2004**

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property Tax	\$281,507	\$ 0
Tax Increment Financing	159,748	0
Other City Tax	96,733	0
Licenses & Permits	3,278	0
Use of Money & Property	7,144	0
Intergovernmental	203,836	0
Charges for Service	40,628	279,300
Special Assessments	2,683	0
Miscellaneous	46,908	17,528
Total Receipts	<u>842,465</u>	<u>296,828</u>
Disbursements:		
Public Safety	153,248	0
Public Works	203,316	0
Health & Social Services	0	0
Culture & Recreation	114,966	0
Community & Economic Development	62,641	0
General Government	107,565	0
Debt Service	96,705	0
Capital Projects	652,582	0
Business Type Activities	0	183,991
Total Disbursements	<u>1,391,023</u>	<u>183,991</u>
Excess of Receipts Over Disbursements	(548,558)	112,837
Other Financing Sources (Uses), Net	<u>357,486</u>	<u>(46,458)</u>
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	(191,072)	66,379
Balances Beginning of Year	<u>653,910</u>	<u>197,376</u>
Balances End of Year	<u><u>\$462,838</u></u>	<u><u>\$263,755</u></u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$281,507	\$276,213	\$266,212	\$15,295
159,748	64,400	85,000	74,748
96,733	87,750	86,914	9,819
3,278	8,060	2,185	1,093
7,144	13,700	14,139	(6,995)
203,836	135,307	177,307	26,529
319,928	282,695	318,925	1,003
2,683	2,000	3,145	(462)
64,436	1,100	16,520	47,916
1,139,293	871,225	970,347	168,946
153,248	153,610	160,851	7,603
203,316	223,725	217,730	14,414
0	4,070	4,070	4,070
114,966	120,225	129,475	14,509
62,641	37,600	77,906	15,265
107,565	108,819	107,327	(238)
96,705	29,230	96,705	0
652,582	0	647,735	(4,847)
183,991	300,737	263,612	79,621
1,575,014	978,016	1,705,411	130,397
(435,721)	(106,791)	(735,064)	299,343
311,028	0	372,532	(61,504)
(124,693)	(106,791)	(362,532)	237,839
851,286	337,063	851,279	7
\$726,593	\$230,272	\$488,747	\$237,846



## **CITY OF NORA SPRINGS**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except fiduciary funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$130,397. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government and capital project functions.

## **Other Supplementary Information**

**CITY OF NORA SPRINGS**  
**Nora Springs, Iowa**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES IN  
FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS**

As of and for the Year Ended June 30, 2004

	Employee Benefits	Library Trust	Forfeiture Fund	Capital Projects 1999 CDBG Housing Rehabilitation	Total
<b>Receipts:</b>					
Property Tax	\$70,788	\$ 0	\$ 0	\$ 0	\$70,788
Other City Tax	674	0	0	0	674
Use of Money & Property	0	1,276	0	0	1,276
Intergovernmental	0	0	0	43,791	43,791
Miscellaneous	698	143	1,000	12,899	14,740
Total Receipts	72,160	1,419	1,000	56,690	131,269
<b>Disbursements:</b>					
Operating					
Public Safety	25,889	0	0	0	25,889
Public Works	20,824	0	0	0	20,824
Culture & Recreation	5,795	12,573	0	0	18,368
Community & Economic Development	0	0	0	29,087	29,087
General Government	9,976	0	0	0	9,976
Total Disbursements	62,484	12,573	0	29,087	104,144
Excess of Receipts Over (Under) Disbursements	9,676	(11,154)	1,000	27,603	27,125
<b>Other Financing Sources:</b>					
Sale of Capital Assets	0	0	4,655	9,857	14,512
Operating Transfers In	0	0	0	24,146	24,146
	0	0	4,655	34,003	38,658
Net Change in Cash Balances	9,676	(11,154)	5,655	61,606	65,783
Cash Balances – Beginning of Year	105,254	90,103	0	(49,948)	145,409
Cash Balances – End of Year	\$114,930	\$78,949	\$5,655	\$11,658	\$211,192
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Special Revenue Funds	\$114,930	\$78,949	\$5,655	\$ 0	\$199,534
Capital Project Funds	0	0	0	11,658	11,658
Total Cash Basis Fund Balances	\$114,930	\$78,949	\$5,655	\$11,658	\$211,192

See accompanying independent auditors' report.

**CITY OF NORA SPRINGS**  
**Nora Springs, Iowa**

**SCHEDULE OF INDEBTEDNESS**  
Year Ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Notes			
Refunding Note	Dec 4, 2002	2.20-4.80%	\$240,000
Wastewater Treatment Plant	Dec 29, 2000	4.90-5.45%	500,000
Sewer Revenue Notes	Dec 1, 2000	5.00-5.85%	410,000
Sewer Revenue Notes	Jan 1, 2004	2.0-5.0%	350,000
Sewer Improvement Warrants	April, 4, 2003	2.00%	350,000
Capital Lease Squad Car	Feb 5, 2003	6.25%	21,258

See accompanying independent auditors' report.

**Schedule 2**

Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$230,000	\$ 0	\$20,000	\$210,000	\$ 9,080	\$ 0
420,000	0	45,000	375,000	22,025	0
\$650,000	\$ 0	\$65,000	\$585,000	\$31,105	\$ 0
\$370,000	\$ 0	\$ 20,000	\$350,000	\$20,068	\$ 0
0	350,000	0	350,000	6,179	0
\$370,000	350,000	\$20,000	\$700,000	\$26,247	\$ 0
\$350,000	\$ 0	\$350,000	\$ 0	\$ 2,275	\$ 0
\$ 13,738	\$ 0	\$ 6,661	\$ 7,077	\$ 859	\$ 0

**CITY OF NORA SPRINGS****NOTE MATURITIES**  
**June 30, 2004**

## General Obligation Notes

Refunding Note	Wastewater Treatment Plant
Issued December 4, 2002	Issued December 29, 2000

Year Ending June 30	Interest Rates	Amount	Interest Rate	Amount	Total
2005	2.80%	\$20,000	5.10%	\$45,000	\$65,000
2006	3.20	15,000	5.15	50,000	65,000
2007	3.50	15,000	5.20	50,000	65,000
2008	3.80	20,000	5.25	55,000	75,000
2009	4.00	20,000	5.30	55,000	75,000
2010	4.20	20,000	5.35	60,000	80,000
2011	4.40	25,000	5.45	60,000	85,000
2012	4.60	25,000		0	25,000
2013	4.70	25,000		0	25,000
2014	4.80	25,000		0	25,000
Total		<u>\$210,000</u>		<u>\$375,000</u>	<u>\$585,000</u>

## Revenue Notes

Sewer	Sewer
Issued December 29, 2000	Issued January 1, 2004

Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	Total
2005	5.30%	\$20,000	2.00%	\$15,000	\$35,000
2006	5.35	20,000	2.45	15,000	35,000
2007	5.40	25,000	2.80	15,000	40,000
2008	5.45	25,000	3.15	15,000	40,000
2009	5.50	25,000	3.50	15,000	40,000
2010	5.55	30,000	3.70	15,000	45,000
2011	5.60	30,000	3.95	15,000	45,000
2012	5.65	30,000	4.10	15,000	45,000
2013	5.70	35,000	4.25	15,000	50,000
2014	5.75	35,000	4.40	15,000	50,000
2015	5.80	35,000	4.55	20,000	55,000
2016	5.85	40,000	4.65	20,000	60,000
2017		0	4.80	50,000	50,000
2018		0	4.90	55,000	55,000
2019		0	5.00	55,000	55,000
Total		<u>\$350,000</u>		<u>\$350,000</u>	<u>\$700,000</u>

See accompanying independent auditors' report.

**Schedule 4**

**CITY OF NORA SPRINGS**

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS  
BY FUNCTION – ALL GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2004**

	Years Ended June 30, <u>2004</u>
Receipts:	
Property Tax	\$281,507
Tax Increment Financing	159,748
Other City Tax	96,733
Licenses and Permits	3,278
Use of Money and Property	7,144
Intergovernmental	203,836
Charges for Services	40,628
Special Assessments	2,683
Miscellaneous	<u>46,908</u>
Total	<u>\$842,465</u>
Disbursements:	
Operating	
Public Safety	\$153,248
Public Works	203,316
Culture and Recreation	114,966
Community and Economic Development	62,641
General Government	107,565
Debt Service	96,705
Capital Projects	<u>652,582</u>
Total	<u>\$1,391,023</u>

See accompanying independent auditors' report.

## **Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting**

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To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Nora Springs, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 8, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the City of Nora Springs' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved, except for items (2), (7), and (10).



## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Nora Springs' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Nora Springs' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item A is a material weakness. Prior year reportable conditions have been resolved except for items A and B.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Nora Springs and other parties to whom the City of Nora Springs may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Nora Springs during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 8, 2004

City of Nora Springs

Schedule of Findings

Year Ended June 30, 2004

**Findings Related to the Financial Statements**

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

**REPORTABLE CONDITION:**

- A. Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the functions of cash receipts listing, bank deposits and posting of the cash receipts to the cash receipts journal are not entirely segregated.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will review the procedures as suggested.

Conclusion – Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transaction and reports.

- B. Credit Cards – The City has credit cards for use by various employees while on city business. The City has established a policy for the use of these cards, however the policy is not written

Recommendation – The City should establish a written policy for the use of credit cards.

Response – We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

### **Other Findings Related to Required Statutory Reporting:**

1. Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
2. Certified Budget – Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the general government and capital projects function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

3. Questionable Disbursements – No disbursements were noted that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.
4. Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
5. Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title & Business Connection	Transaction Description	Amount
Al Brailer, Council Member, Owner of Brailer Tooling and Mfg.	Supplies	\$716

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with council members do not appear to represent conflicts of interest since total transactions with each Council Member were less than \$2,500 during the fiscal year.

6. Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

7. Council Minutes – No transactions were found that we believe should have been approved in the Council Minutes but were not. Not all lists of claims included the purpose of the claim as required by an Attorney General's opinion dated April 12, 1976.

Recommendation – The list of claims should include the purpose of the claim.

Response – This has been corrected.

Conclusion – Response accepted.

8. Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

9. Excess Fund Balances – We noted the fund balances in the Special Revenue Funds, Employee Benefits, Local Option Sales Tax Increment Financing Accounts, and Trust Fund Library Donations and Forfeiture Accounts were in excess of disbursements for the current year.

Recommendation – The City should investigate alternatives to eliminate the excesses.

Response – The City will investigate alternatives.

Conclusion – Response accepted.

10. Financial Condition – The General Fund had a deficit balance of \$140,500 at June 30, 2004.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response – The deficit balance in the General Fund is due to project costs. This deficit will be eliminated through the budget.

Conclusion – Response accepted.

11. Revenue Notes – The city has complied with the revenue note resolutions.

## NEWS RELEASE

Gardiner Thomsen, Certified Public Accountants, today released an audit report on the City of Nora Springs.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$1,153,967 for the year ended June 30, 2004, a 13 percent increase from 2003. The receipts included \$284,640 in property tax, \$159,748 from tax increment financing collections, \$73,362 from charges for service, \$167,302 from operating grants, contributions and restricted interest, \$45,791 from capital grants, contributions and restricted interest, \$93,599 from local option sales tax, \$4,542 from unrestricted investment earnings and \$28,155 from other general receipts.

Disbursements for the year totaled \$1,391,023, a 16% increase from the prior year, and included \$652,852 for Capital Projects, \$203,316 for Public Works, and \$153,248 for Public Safety. Also, disbursements for business type activities totaled \$230,688.

The significant increase in receipts and disbursements is due primarily to increased property tax and local option sales tax receipts and capital projects expenditures respectively.

A copy of the audit report is available for review in the office of the Auditor of State and at the City Clerk's office.